

**Affordable Housing
Contribution Procedures
and Valuation Techniques**
Discussion with AHAAC

MARCH 3, 2016

OFFICE OF HOUSING

Let's talk about how...

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- affordable units get built in the City
- voluntary (monetary) affordable housing contributions are calculated
- affordable housing provided on/off-site is valued

Housing Master Plan:
new affordability for
2,000 units by 2025

How affordable units get built

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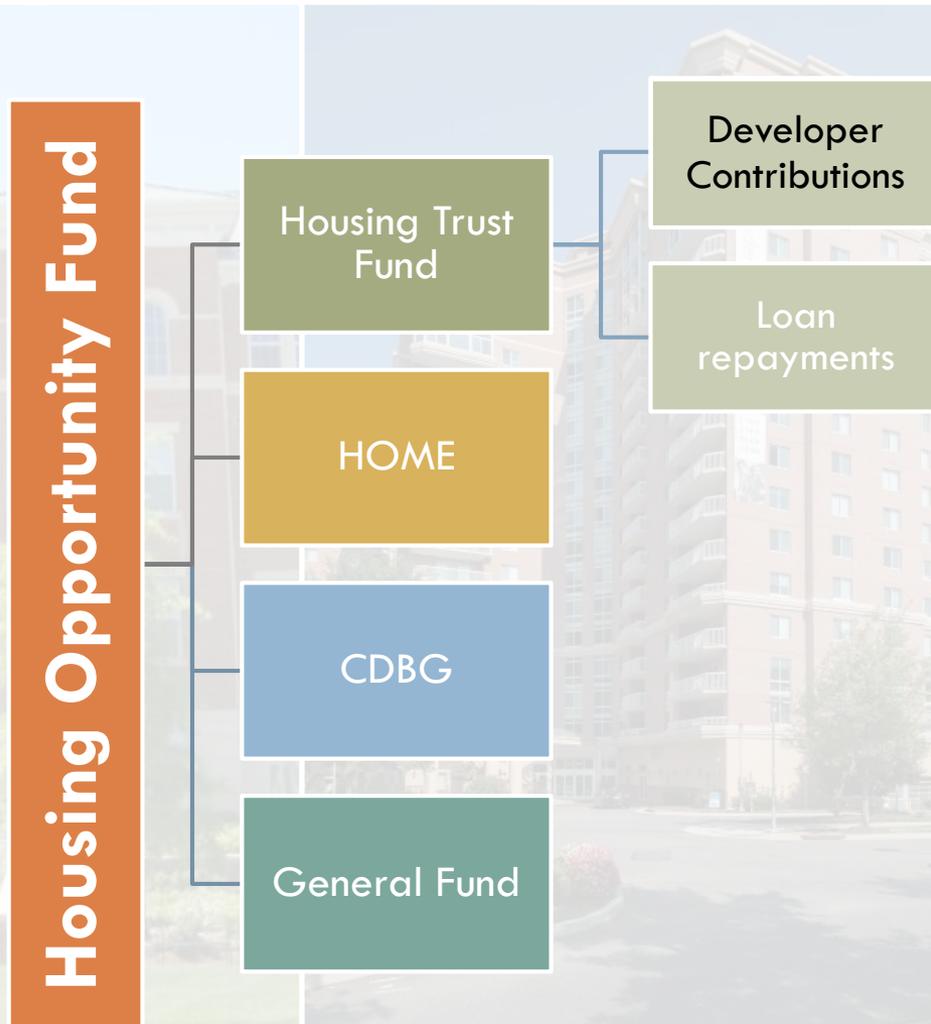
- Voluntary monetary contributions to the Housing Trust Fund
- Sec. 7-700
- CDDs and rezonings



How affordable units get built

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- Voluntary monetary contributions to the Housing Trust Fund



How affordable units get built

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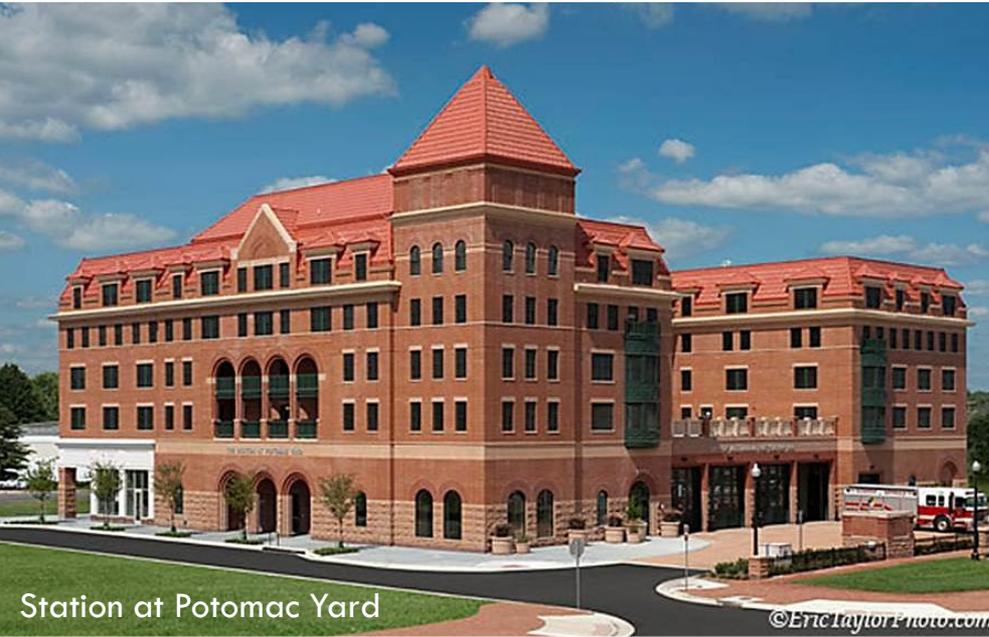
- Voluntary monetary contributions to the Housing Trust Fund

Helps fund:

- The development and preservation of affordable rental housing
 - Leverages state and private funding
- Housing counseling services
- Mini-RAMPs (rental accessibility projects)
- Rebuilding Together America
- Homeownership programs

Housing Trust Fund dollars at work!

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Station at Potomac Yard

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Community Lodgings



Arbelo Apts



Gateway at King and Beauregard



Jackson Crossing

Voluntary monetary contributions

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Development Category	Tiers	2015 Rates per Sq. Ft.
Non-residential	n/a	\$1.89
Residential	Tier 1 (by right)	\$2.51
Residential	Tier 2	\$5.03

- Rates adjusted annually (CPI for Housing)
 - ▣ 2016 rates to be released in March
- Paid when projects are completed

Exemptions:

- Religious, public, municipal uses, and ARHA
- Residential uses < 5 units
- New construction and additions < 3,000 sq ft
- Parking except for single-owner garages

601 Henry Street (The Park Residences)

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Application:

18 Townhouses: 49,034 GFA

Site characteristics:

Lot area: 29,523

Zoning: CSL

FAR permitted: 0.75

FAR proposed: 1.75

By right: $29,523 * 0.75 = 22,142$ GFA

Development Category	GFA	2014 Rates per Sq. Ft.	Voluntary Contribution
Non-residential	n/a	\$1.85	n/a
Residential Tier 1 (by right)	22,142	\$2.47	\$54,691
Residential Tier 2	26,892	\$4.94	\$132,845
Total contribution to Housing Trust Fund:			\$187,537

FAR=floor area ratio (the total square feet of a building divided by the total square feet of the lot on which the building is located)

Section 7-700 (bonus density and/or height)

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Station 650 at Potomac Yard



The Bradley



Notch 8



Del Ray Central

Section 7-700 (bonus density and/or height)

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- Provides for added bonus density (up to 20%*) and/or height (up to 25' in areas w/o a 50' or lower height limit) in exchange for affordable housing
- Changes since 2013
 - *More than 20% bonus permitted if authorized by small area plan
 - 2015 Eisenhower West SAP
 - 1/3 of bonus units (or equivalent) must be committed affordable
 - Affordable offsite units permitted if equivalent in value
 - Cash in lieu of units permitted if mutually agreed to



CDDs and rezonings

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- When additional density is requested, the Housing Master Plan recommends contributions take into account that affordable housing is one of the City's highest priorities and that there should be a significant monetary or in-kind contribution to affordable housing in excess of what would normally be required with a DSUP
 - ▣ Examples: Oakville Triangle (approved) & ABC/Giant site (on 3/12 council docket)
 - ▣ Planning Commission feedback: Compare contribution to affordable units that would have been achieved through Sec. 7-700

Valuation—the importance of inputs

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□ Inputs

- Market rents (comps)
- Affordable rents—maximum LIHTC gross rents (source: [VHDA](#)) at 30% of 60% AMI for Northern Virginia MS
- Rent escalation rates
 - market (changes in overall market)
 - affordable (changes in LIHTC rents)
- Expense escalation rates
 - market
 - affordable } may be the same
- Vacancy rates
 - market
 - affordable
- Turnover rates
- Parking reductions for affordable units

Are we missing anything?

Valuation—different techniques

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- **Net operating income (NOI) and cap rate**
 - Value=NOI/cap rate
 - “Point in time”
 - Cap rate
 - Return on investment; market driven/determined by comps
 - Sources: CoStar, CBRE, IRR
 - Example: Beauregard

NOI=Potential Gross Income-Vacancy-Bad Debt-Operating Expenses

Potential Gross Income=rental income + other income + expense reimbursements

Operating Expenses=taxes + repairs + maintenance + insurance + utilities + replacement reserves

Valuation—different techniques (cont.)

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- **Net present value analysis**
 - “Over time” (e.g. 20, 25, 30, 40 years, etc.)
 - Discount rate (factor)
 - Highly sensitive to length of analysis (affordability term), discount factor, and rent and expense escalation rates
- Example: Oakville Triangle project

“The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the discount rate.”

Oakville Triangle DSUP

- Affordable housing negotiated as part of broader community benefits package
 - Estimated standard monetary contribution
 - Developer agreed to provide on-site units
 - Estimated affordable unit target
 - Negotiated number and terms of units at a significantly higher value

Development Category	GFA	2015 Rates per Sq. Ft.	Voluntary Contribution
Non-residential	460,962	\$1.89	\$871,218
Residential Tier 1 (by right)	476,349	\$2.51	\$1,195,635
Residential Tier 2	567,902	\$5.03	\$2,856,545
Standard contribution to Housing Trust Fund:			\$4,923,398

Net Present Value Analysis	
Number of affordable units	65 (63 studios & 2 two-bedrooms)
Area median income	At or below 60% AMI
Term of affordability	25 years
Annual escalation rate	3%
Discount rate	5%
Estimated value of on-site units:	\$7,818,570

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Thank you! Questions/Ideas?